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SIPDIS

USDOC FOR ADVOCACY CENTER AND DEFALCO
TREASURY FOR OASIA - CHRIS PLANTIER
PASS OPIC FOR ROSS CONNELLY

SENSITIVE

E.O. 12958: N/A

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SUBJECT: GMAC/DILLINGHAM UPDATE

1. (SBU) On June 1, ECON/C raised GMAC/Dillingham's problems in completing the long-delayed Izmir Ring Road project with Under Secretary Ibrahim Canakci, the head of the Turkish Treasury who reports directly to State Minister Ali Babacan. Canakci was familiar with the letter sent by OPIC VP Ross Connelly to Deputy Prime Minister Sener, as well as with Ambassador Edelman's letters to Babacan and Finance Minister Unakitan. Canakci said he had staffed the letter and the issue out for detailed study in the Treasury.

2. (SBU) Canakci said that there were numerous projects to which the GOT had committed itself before the financial crisis that it was simply no longer able to fund consistently with sound fiscal policy. He said the size of the overall budget allocated for government investment (capital spending) projects was set by the GOT within the parameters agreed with the IMF Treasury, and that it was the responsibility of the State Planning Office (SPO) to set priorities within this envelope. Also, it was the responsibility of the Treasury to determine whether or not to draw on the offshore loan established to help fund the ring road project.

3. (SBU) At the same time, Canakci understood that if the inability of the GOT to allocate sufficient funds to the project led to a situation in which GMAC/Dillingham was unable to perform its contractual responsibilities, it would seem unfair for the State Highway Department to call the OPIC-insured performance bond issued by GMAC/Dillingham and its Turkish joint venture partner. However, he said that the legalities would depend on the precise terms of the contract between the Highway Department and GMAC/Dillingham, as well as on the contract between GMAC/Dillingham and OPIC. ECON/C stressed that especially in the wake of PM Erdogan's visit to Washington, we were hopefully in the process of cleaning up old investment and commercial disputes and that we hoped to avoid any new negatives -- understanding that it was the government of Turkey's responsibility to set its budget priorities. Canakci agreed and promised to stay in touch on the subject.

4. (SBU) Comment: The constraints of sound fiscal policy -- which we support bilaterally as well as through the IMF program -- are genuine. The GOT may simply not be able to prioritize this project at this time, whatever the on-the-ground need for a new road in Izmir. However, Canakci's personal knowledge of the case shows that we have succeeded in getting the GOT to pay attention at senior levels to the issue and to the USG interest in its equitable and amicable resolution.
EDELMAN